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Summary:

Lunenburg, Massachusetts; General Obligation

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Credit Profile		
US$11.8 mil GO mun purp loan bnds ser 2012 dtd 06/15/2012 due 06/01/2023		
Long Term Rating	AA-/Stable	New
Lunenburg GO bnds ser 2009		
Long Term Rating	AA-/Stable	Affirmed
Lunenburg GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating to Lunenburg, Mass.' general obligation (GO) municipal purpose loan of 2012 bonds. At the same time, Standard & Poor's affirmed its 'AA-' ratings on the town's existing GO debt. The outlook is stable.

Characteristics supporting the current rating include the town's:

- Predominately residential community with access to major commercial centers,
- Very strong household income levels and strong property tax base,
- Maintenance of a good financial position, and
- Low debt burden and moderate capital needs.

The bonds are general obligations of the town. Officials plan to use bond proceeds to permanently finance $1.8 million of existing bond anticipation notes (BANs) and to advance refund the town's series 2003 bonds. We understand that debt service on the portion of the issuance that will take out the BANs will be subject to the levy constraints imposed by Proposition 2 1/2. We also understand that of the refunding portion of the issuance, some of the debt service is exempt and some is not exempt from Proposition 2 1/2 levy constraints. However, given our view of the financial position of the town, we are not currently making a distinction between our rating on the exempt debt and the nonexempt debt.

Lunenburg, with an estimated population of nearly 10,000, is 43 miles northwest of Boston and 29 miles north of Worcester, Mass. The town is a predominately residential community with residential parcels comprising 90% of the tax base. After peaking at $1.32 billion in fiscal 2008, the real estate downturn drove a 15% decrease in assessed value from fiscals 2009-2011. Assessed value grew 0.6% in fiscal 2012 to $1.12 billion, yielding a per capita value of $112,000, which we still consider strong. Despite recent valuation decreases, residential values remain strong compared with national medians; the median home value was 58% above the national level in 2011. Furthermore, we understand there is development ongoing as town officials report two residential projects are currently under construction that are expected to generate approximately $300,000 in property taxes at buildout.

Although the town's immediate employment base is limited, easy access to interstates 90 and 495, State Route 2, and the Massachusetts Bay Transportation Authority commuter rail to Boston provides access to major commercial centers. The town's unemployment rate has tracked slightly above the commonwealth's rate but below the national average over the past few years. According to the Massachusetts Department of Employment and Training, the town's unemployment rate as of March 2012 was 7.4% compared with the commonwealth's 6.4% and the nation's 8.4%. In our opinion, income levels are strong with median household and per capita effective buying income both at 136% of the national average.

Lunenburg's financial position remains good despite operating deficits in two out of the Past three years. Town officials report that the $820,000 net deficit in fiscal 2009 can be largely attributed to state aid cuts while the $396,000 net deficit in 2011 was partially driven by the payment of a court judgment, transfers out to fund capital projects, and one-time expenses incurred from an ice storm. Town officials also report the use of some stabilization fund reserves to fund one-time costs related to unemployment compensation packages. With the introduction of Governmental Accounting Standards Board (GASB) 54 for fiscal 2011, the town's stabilization fund has now been collapsed into the general fund, meaning stabilization reserves are now included as part of general fund balance. At year-end, the town's available fund balance (assigned and unassigned) totaled $1.7 million, or a good 5.8% of expenditures and transfers out. Property taxes are the largest revenue source, accounting for nearly 63% of operating revenues in 2011, followed by state aid at 32%. Property tax collections remain good at an average of 97% over the past three years and nearly 98% for fiscal 2011.

The fiscal 2012 budget totals $26.6 million, representing an increase of 2.4% over 2011. Town officials expect to end the year with break-even or slightly positive operations. The town did incur unexpected expenses related to an ice storm in the fall of 2011, but it expects to be reimbursed by the Federal Emergency Management Agency for 75% of the cost and will be able to absorb the remaining cost due to favorable variances on other budget line items.

Town meeting has adopted a balanced budget for fiscal 2013, which includes a $2.2 million override request, of which $1.5 million would be used to fund operations at a level equivalent to fiscal 2012, $500,000 would be used for road maintenance, and the rest would be put into reserves to offset future budgets. The override is subject to voter approval and, should it fail, officials report that they plan to make cuts to maintain structural balance rather than appropriate fund balance. The town's fund balance policy requires the maintenance of 5% of expenditures, and management has stated that it does not intend to draw on reserves below that threshold. We understand that the only override request in the past 15 years was in 2007, and it was rejected by voters.

Standard & Poor's still considers Lunenburg's financial management practices "standard" under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Net of self-supporting sewer debt, the town's direct debt burden is low at $1,700 per capita, or 1.6% of assessed value. Debt service carrying charges have historically been low, averaging about 6% of governmental funds' expenditures over the past three years. Amortization of principal is rapid, with about 80% of principal scheduled to be retired over 10 years and 94% within 20 years. The town's capital improvement plan includes primarily maintenance projects. We understand that within the next few years the town has plans to finance a new school or substantial renovation to an existing school for grades six to 12. Town officials report that this project is still the preliminary stages, however.

Lunenburg makes 100% of the annual required contributions to the Worcester Regional Retirement System. The contribution for fiscal 2012 is $598,000, or 2.2% of budgeted expenditures. The town meets its other postemployment benefit (OPEB) obligations on a pay-as-you-go basis. The town's 2012 OPEB contribution is $1.2 million, or 4.4% of budgeted expenditures. As of the most recent actuarial valuation on July 1, 2010, the estimated unfunded OPEB liability was sizable at $42.5 million, or $4,250 per capita and 3.8% of assessed value. We understand the town intends to make efforts to reduce its OPEB liability within the next two to three years.

Outlook

The stable outlook reflects Standard & Poor's view that the rating will not change within the two-year outlook horizon as we believe management will remain proactive and make the necessary adjustments to yield balanced results to maintain reserves within the town's policy targets. We believe the town's good economic characteristics should provide a return to stability in the property tax base. Given the town's currently low debt metrics and rapid principal amortization, we do not believe the town's plan to finance a new school will increase its debt burden to a level that could affect the rating. While not a near-term credit issue, the town's sizable OPEB liability could pressure its budget in the future if actions are not taken to reduce this liability.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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